



U.S. Department of Housing and Urban Development
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SEP 17 2008

Mr. Chris Westlake
Deputy Director
Division of Financial Assistance
Department of Housing and
Community Development
State of California
1800 Third Street, Suite 390-3
Sacramento, CA 95811-6942

Dear Mr. ^{Chris} Westlake:

SUBJECT: Programmatic Monitoring
HOME Investment Partnerships Program (HOME)
Grant Numbers: M06-SG-06-0100 & M07-SG-06-0100

We are writing to provide you with the results of our on-site programmatic review of the State of California's HOME Program, conducted by Martha Dibella, Community Planning and Development Representative, August 11-13, 2008. The monitoring visit included a review of the following program years: M06-SG-06-0100 and M07-SG-06-0100.

Overall, the State's HOME program is well-managed and successful in addressing a variety of housing needs of low- and moderate-income residents throughout California. The State has implemented effective oversight policies and procedures and continues to make progress addressing technical reporting requirements. Unfortunately, due to a lack of staffing resources and an increasing workload, the State continues to fall behind in meeting long-term monitoring requirements. We are concerned that the entire program may suffer if this issue isn't addressed in a timely manner. The detailed results of our review, which were discussed with you and your staff on August 13th, are outlined in the enclosed report. Note that we have not identified any findings, but have outlined one concern regarding the status of monitoring reviews as well as a few additional observations requiring the State's attention.

We appreciated the State's assistance in preparing for Ms. Dibella's visit, as well as the time and assistance provided while on-site. If you have any questions regarding this correspondence, please contact Martha Dibella at (415) 489-6593.

Sincerely,

Steven B. Sachs
Director
Office of Community Planning
And Development

Enclosure

cc: Tom Bettencourt, Section Chief, HOME Program

**State of California Program Monitoring
HOME Program
M-06-SG-06-0100 & M07-SG-06-0100**

Introduction

The monitoring, which was conducted in accordance with HUD Handbook 6509.2, focused on program compliance with statutory and regulatory requirements, specifically focusing on the following areas:

- Overall Management Systems: An assessment of the State's overall administration of its HOME Program.
- Subrecipient Management: An evaluation of the State's compliance with HOME requirements for subrecipients.
- State Written Agreements: A review of the State's written agreements with State recipients for compliance with HOME regulatory requirements.
- Community Housing Development Organization (CHDO) Qualifications & Activities: An evaluation of the eligibility of individual nonprofit organizations as CHDOs, and the eligibility of projects undertaken by, and funding provided to individual CHDOs.

Scope of the Review

The review encompassed:

- Program policy and procedures manuals, State Notice of Funds Available (NOFAs), application review forms, and monitoring tracking reports.
- Integrated Disbursement and Information System (IDIS) reports reflecting the status of the State's HOME projects.
- For the purpose of reviewing the State's written agreements, a sample of three State recipient files and two CHDO project files.
- A sample of five CHDO files documenting their eligibility to participate in the Program.

Outcomes

Overall Management Systems

As noted above, we focused on the State's management of its HOME Program and the systems it has in place to ensure that projects progress, are completed, and accomplishments are reported in IDIS. We have two observations regarding IDIS data:

1. With respect to the completion of projects, project completion reports are to be entered into IDIS within 120 days of the final draw. The State has one of the largest inventories of HOME projects in the nation and as of July 31, 2008, the State had 112 open activities in IDIS. Of those activities, 16 have been in final draw status for greater than 120 days. While the State has made considerable progress completing projects and entering accomplishment data in IDIS, we urge staff to continue efforts to enter completion reports into the system within 120 days of the final draw.

2. We also discussed the status of the Vacant Units report which is updated monthly on HUD's HOME website. Currently, the State has a considerable number of discrepancies outlined on the report. As discussed on-site, staff has already started cleaning up those data errors. Efforts to increase the timeliness and accuracy of IDIS reporting will assist the State in improving its ranking related to other State grantees.

A number of rating factors are used in determining the State's comparative performance to other State Participating Jurisdictions (PJs) (e.g., percentage of funds committed, percentage of funds disbursed, percentage of completed CHDO disbursements to CHDO reservations, etc.). Although there is still room for improvement, since our last on-site monitoring in September of 2006, the State has improved its overall ranking from 41st to 35th out of 51 State PJs.

Subrecipient Management

We focused on the State's management of subrecipients including the application and award process, risk analysis procedures, and monitoring including scope and documentation. We relied heavily upon status reports provided by the State's staff and the staff's descriptions of the State's systems and processes.

Generally, we found that the application review and award process was thorough and well-documented. The State developed and continues to update excellent program and contract manuals in addition to providing training and technical assistance to its recipients. Monitoring checklists, letters, and follow-up are comprehensive and address HOME requirements. We were pleased to see that the State incorporated the changes recommended during HUD's previous monitoring review into its checklists and monitoring policies. However, lacking sufficient resources, mainly staff, the State continues to accumulate a tremendous backlog of monitoring reviews.

Concern Number 1 – Status of Monitoring Reviews

Although the State has made some efforts to complete mandated recipient, project, and CHDO monitoring, it has not had the resources to meet either long-term or close-out monitoring goals resulting in an increasing backlog of reviews. For example, only five CHDO projects and nine State recipients were monitored on-site in 2007. Also, for some on-site visits that had been completed as of the date of our visit, letters had yet to be issued. We also found that given the frequent turnover and capacity of some of the recipients; it appears that there is a need for a long-term servicing plan to ensure that jurisdictions carrying out on-going programs are complying with long-term HOME requirements (e.g., occupancy requirements, recapture provisions).

Requested Action:

We recognize the constraints hindering the State's ability to meet monitoring goals including a large and increasing workload, lack of staff, and absence of travel funds. However, we ask that the State provide us with a comprehensive monitoring strategy that outlines how the State will address the backlog of reviews and ensure that on-going monitoring requirements are met for CHDO projects, recipient projects, and on-going programs. The strategy may include items such as the addition or reallocation of staffing and fiscal resources, a description of the risk analysis process to target high risk grantees, and any actions the State feels are necessary to ensure compliance with close-out and long-term monitoring requirements. Please provide this information within 30 days of the date of this letter.

Written Agreements

We reviewed a sample of written agreements with State recipients and CHDOs to ensure that the regulatory requirements set forth in 24 CFR Part 92 have been met. The following written agreements were reviewed thoroughly:

- County of Monterey – M0407044
- County of Shasta – M051683
- County of Sutter – M062357
- Self-Help Enterprises (CHDO) – M020634
- Community Housing Opportunities Corporation (CHDO) – M040716

Generally, we found that the agreements met the aforementioned requirements. In addition to the five agreements above that were given an in-depth review, we also looked at a few other files to ensure that the requirements were met. Based on our review, it appears that the State implemented the revisions recommended by HUD staff during the previous on-site review. The more recent agreements contain stronger language regarding the treatment of program income and have been updated to reflect minor changes in program policy.

Community Housing Development Organizations (CHDO) Qualifications

Prior to our visit, a sample of five CHDOs (see below) was selected and the State's CHDO qualification files were reviewed to ensure that the program requirements have been met.

- Self-Help Enterprises
- Community Housing Opportunities Corporation
- Coachella Valley Housing Coalition
- Community Housing and Improvement Systems Planning Association
- Central Valley Coalition for Affordable Housing

We found that the State's reviews were well-documented with a comprehensive checklist and that the regulatory requirements have been met. We do have one observation related to CHDOs:

1. Community Housing Opportunities Corporation had not been recertified, Central Valley Coalition for Affordable Housing was denied certification, and Community Housing and Improvement Systems Planning Association had funds disencumbered. Additionally, a review of the IDIS PR25 "Status of CHDO Funds" report found that some CHDOs are fairly slow to expend funds. Based on this information, we recommend the State continue to provide technical assistance (TA) to CHDOs to increase capacity and improve performance. We recognize that the State has been working with the TA provider, RCAC, to conduct training sessions but we also support the State's efforts to assess the effectiveness of current assistance and develop additional strategies for providing TA. This may include one-on-one TA, peer-to-peer workshops, or additional focused training sessions to enhance capacity and ensure project feasibility. Please contact us should you need our assistance with these efforts.